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British Columbia

Brief presented to  
Plenary Session of the  
Federal-Provincial Confer-  
ence, Ottawa, December  
4-7, 1950.







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# BRIEF

Presented to Plenary Session of the

## Federal-Provincial Conference

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Ottawa, December 4-7, 1950



The following brief, prepared by Mr. H. Carl Goldenberg, O.B.E., Special Counsel for British Columbia, was submitted on behalf of the Government to the Federal-Provincial Conference in Ottawa on December 5th, 1950, by the Hon. Herbert Anscomb, Minister of Finance.

BYRON I. JOHNSON,  
*Premier.*







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British Columbia.

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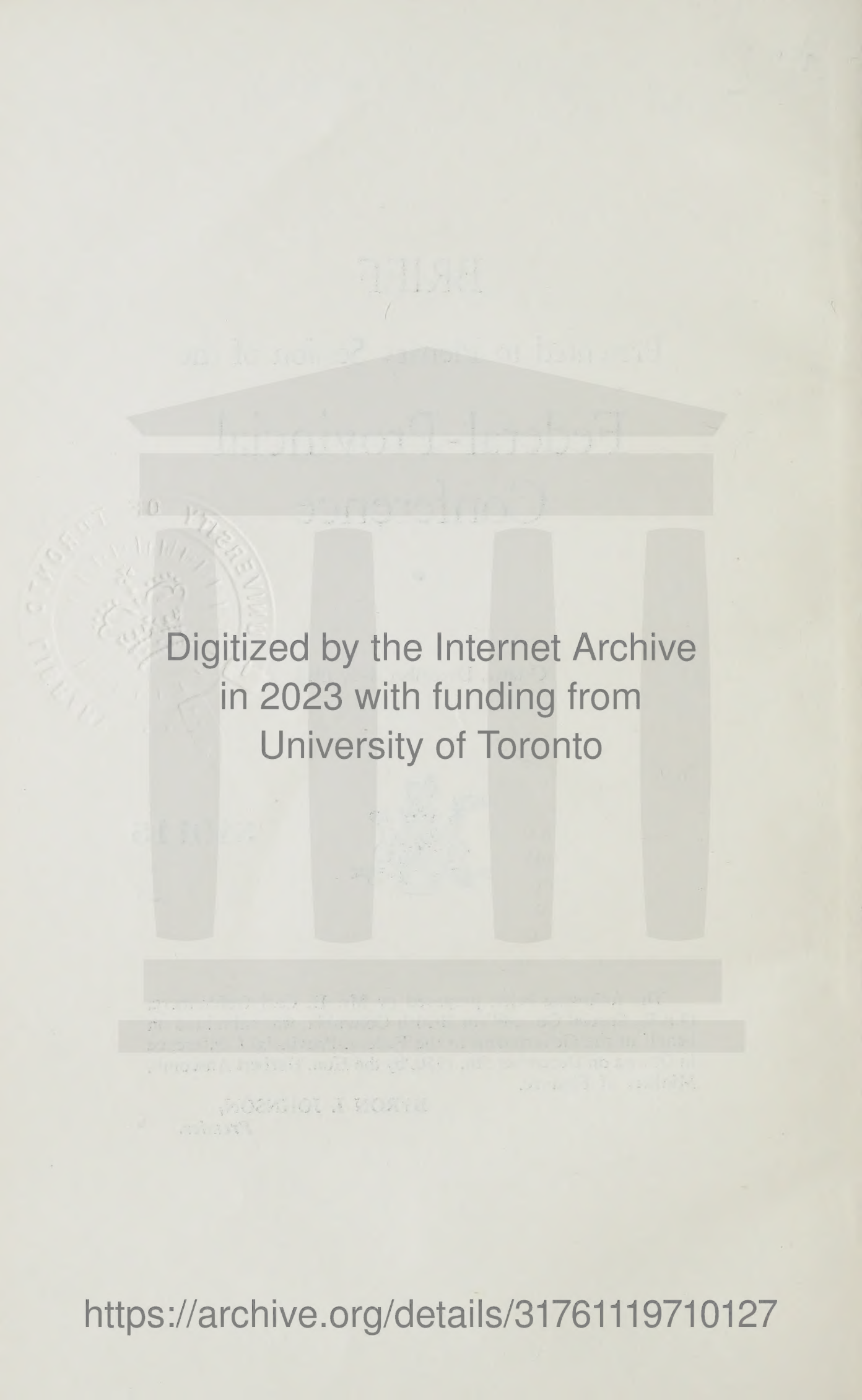


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# SUBMISSION BY THE PROVINCE OF BRITISH COLUMBIA TO THE FEDERAL-PROVINCIAL CONFERENCE

## I. INTRODUCTORY

### *Federal-Provincial Relations, 1940-50*

The purpose of the present Conference is to discuss matters of common concern to the federal and provincial governments. The most important of these matters continues to be the establishment of an effective working relationship, within the framework of the federal system, which will make possible the adoption and application by the appropriate governing unit of measures to promote and protect the general welfare. The establishment of a relationship which will effect a balance between the financial capacities and the obligations and functions of the federal and provincial governments, respectively, was, in recent years, examined by the Rowell-Sirois Commission, which reported in 1940, and was a principal subject of discussion at the Dominion-Provincial Conferences of 1941 and 1945-46, both of which failed to reach agreement.

In the absence of agreement, at the 1941 Conference, on wider matters of Federal-Provincial concern, the requirements of war finance forced the conclusion of agreements in the field of taxation alone. Under the Dominion-Provincial Tax Suspension Agreement of 1941 the provinces withdrew from the income and corporation tax fields in favour of the Dominion for the duration of the war and one year after, in return for an annual grant to compensate them for the receipts from such taxes and a Dominion guarantee of provincial gasoline tax revenues and liquor revenues.

Before the termination of the war-time tax agreements, the Dominion Government called the 1945-46 Conference on Reconstruction, at which it proposed; (a) the adoption in co-operation with the provinces of a public investment policy to compensate for fluctuations in private investment and employment; (b) a social security program, including a national health program, national old age pensions at 70, Dominion-Provincial old age assistance between 65 and 69, an extension of the unemployment insurance system, and national unemployment assistance for the employable unemployed; and (c) financial arrangements under which the provinces would continue to refrain from imposing personal and corporation taxes and would also withdraw from the field of succession duties in return for annual payments by the Dominion varying with changes in provincial population and in the gross national product per capita, but with an irreducible minimum. The Conference failed to reach agreement.

In his budget speech of June 27th, 1946, the Right Hon. J. L. Ilsley, Minister of Finance, submitted to the individual provinces a proposal



limited to the financial offer which had been made by the Dominion. He offered agreements to interested provinces on a five-year basis providing for an annual payment by the Federal Government for the exclusive use of the personal income tax, corporation taxes and succession duties, subject to an adjustment in the case of provinces which preferred to continue levying their own succession duties.

In the course of his remarks Mr. Ilsley said:<sup>1</sup>

The house will have noted that the proposal I have outlined is limited strictly to matters of finance and taxation. That is an inevitable result of the failure thus far to achieve agreement with the provinces. It is obvious that the dominion cannot, for instance, assume responsibility for unemployed employable persons in some provinces but not in others. Nor can it introduce the overall plan of social security we had contemplated without at the same time reaching a satisfactory financial agreement with the provinces. Several of the major objectives of the comprehensive dominion proposals which were announced last August must therefore be held in abeyance for the time being. They remain, nevertheless, an essential part of the program of this government. We continue to be ready to proceed with these or similar measures as and when arrangements can be worked out which will enable us to carry them out satisfactorily. We earnestly hope that those who have it in their power to make agreement possible will not long delay in making it possible to consummate the objectives we have in mind.

Three weeks later, on July 15th, 1946, referring to the same considerations, Mr. Mackenzie King, then Prime Minister, wired to the Premier of Saskatchewan as follows:<sup>2</sup>

The Dominion Government shares your regret that it has not been possible to include in the Dominion offer made in the budget the earlier proposals relating to public investment and social security. However, as emphasized in the budget address, the public investment and social security proposals submitted last August remain an essential part of the Dominion Government's program. As soon as there is a sufficient acceptance of the proposed tax agreements we shall be ready to explore in a general conference or otherwise the possibility of working out mutually satisfactory arrangements in regard to the whole or any part of our earlier public investment and social security proposals.

Mr. Ilsley's offer was followed by separate negotiations with the interested provinces. The negotiations were continued by Mr. Ilsley's successor, the Hon. D. C. Abbott. The proposed formula for determin-

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<sup>1</sup> House of Commons Debates, June 27, 1946, pp. 2998-2999.

<sup>2</sup> Dominion-Provincial Conference: Correspondence since the Budget of 1946 on Matters of Substance Regarding Tax Agreements with the Provinces, p. 54.



ing the annual payment to the provinces was modified and agreements were in due course signed by all the provinces except Ontario and Quebec. These agreements terminate on March 31st, 1952.

In reporting to the Legislature on the agreement signed by British Columbia, Premier John Hart said:<sup>1</sup>

Prime Minister Mackenzie King assured me that as soon as a sufficient number of Provinces had signed agreements he would call another Dominion-Provincial Conference to discuss implementation of social security measures, such as old-age pensions for everyone over 70 years of age and pensions on a means-test basis for all those between the ages of 65 and 70. There also will be discussed such questions as unemployment, public investment, and other proposals.

Under the Dominion-Provincial Agreement of 1947 the guaranteed minimum annual payment to British Columbia for the rental of the personal income tax, corporation taxes, and succession duties is the sum of (a) the statutory subsidies payable under the Terms of Union (\$1,003,440); (b) \$12.75 per capita on the 1942 population, estimated at 870,000 persons, (\$11,092,500); and (c) 50 per cent of the provincial tax receipts from income and corporation taxes for the year ended March 31, 1941, (\$6,024,184). This minimum of \$18,120,124 is subject to adjustments upwards for increases in provincial population and in gross national product per capita, averaged over the last three years.

Apart from other aims, such as eliminating double taxation and equalizing, as far as possible, the varying financial capacities of the provinces, the tax rental agreements were intended, in the words of the Dominion Minister of Finance, to place "the governments of all provinces in a position to carry out their constitutional functions efficiently and independently," and to enable provincial governments "to plan program of service and expenditure over a period of years" with the assurance of a guaranteed minimum revenue for at least five years.<sup>2</sup>

British Columbia submits that the tax rental agreements have not achieved the aims envisaged by Mr. Abbott because the great increase in the financial responsibilities of the provinces since 1946-47 could not be foreseen, and, further, because the agreements were in any event not intended to stand alone. They were but one part of a proposed pattern for a working relationship between the Federal and Provincial Governments. The other integral parts were a public investment policy and a social security program. These, however, have been held in abeyance since the signing of the agreements.

Without a reallocation or sharing of present governmental functions and responsibilities, the tax rental agreements in themselves could not

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<sup>1</sup> Government Policy Speech, 1947, p. 14.

<sup>2</sup> House of Commons Debates, July 9, 1947, p. 5318.



place the governments of the provinces in a position to carry out their constitutional functions. Accordingly, a new attempt must now be made to complete the pattern of Federal-Provincial relationship, with due regard to the experience of the immediate post-war years and the requirements of the years ahead. That should be the task of this Conference.

British Columbia approaches this task in a spirit of co-operation, anxious to assist in promoting the general welfare but also determined to maintain and, having regard to its resources, to improve the standard of living and the welfare of its own citizens.

## II. BRITISH COLUMBIA

### *Growth and Development*

The only working relationship between the Federal and Provincial Governments which can be effective is one which fits into the framework and satisfies the requirements of the federal system. Federalism in Canada is based upon the existence of the provinces and their proper functioning in the country's system of government. Such proper functioning is in large part dependent upon the ability to balance the financial capacities and the responsibilities of government. Accordingly, Federal-Provincial agreements effecting changes in financial and functional relations should seek to attain such a balance. From the standpoint of the individual provinces, therefore, the agreements must have particular regard to:—

- (a) the provincial economy, its past and anticipated development;
- (b) the growth and development of governmental services and responsibilities; and
- (c) the finances and financial requirements of the province.

British Columbia has in the past ten years experienced tremendous growth and development with resultant marked effects on governmental services and finances. The expansion and development did not end with the war. The Province has seen continued growth and changes since the Dominion-Provincial Conference of 1945–46 and the negotiation of the Tax Rental Agreement of 1947. These developments and the further expansion which is indicated must be examined since they necessarily constitute a principal consideration in determining the present submission and recommendations of the Province with respect to Federal-Provincial relations.

The Province's growth in recent years has been marked by a very large increase in population and in the production of both primary and secondary industries. The Second World War accelerated economic activity and the movement of population into British Columbia, and the rapid development of its economy is continuing. In consequence, the responsibilities of the Province for the welfare of its people and for the further development of its resources are expanding.



The following table shows the increase of population in British Columbia as estimated by the Dominion Bureau of Statistics:—

1926.....	606,000
1930.....	676,000
1939.....	792,000
1940.....	805,000
1945.....	949,000
1946.....	1,003,000
1947.....	1,044,000
1948.....	1,082,000
1949.....	1,114,000
1950.....	1,138,000

The increase is startling. In the ten years from 1939 to 1949 alone it was more than 40 per cent. Its implications in terms of government services and expenditures are clear. It explains rising costs in such services as health, welfare, and education, and in the overhead costs of government. In measuring the relative responsibilities and requirements of British Columbia it is well to compare the percentage increase in its population with that of Canada as a whole and of the other provinces in the ten years from 1939 to 1949:—

	Per cent
British Columbia .....	40.66
Quebec .....	20.34
Ontario .....	18.96
New Brunswick .....	15.44
Nova Scotia .....	14.97
Alberta .....	10.81
Manitoba .....	7.16
Prince Edward Island .....	0.
Saskatchewan .....	-4.97
Canada .....	17.17

The Canada Year Book, in its report on population movements in the 1930's and 1940's, based upon the studies of the Dominion Bureau of Statistics, states that:<sup>1</sup>

The most spectacular changes are shown in the prairie provinces and in British Columbia. The three Prairie Provinces lost by out-migration about a quarter of a million people between 1931 and 1941 and almost the same number from 1941 to 1946. British Columbia gained—during the 1930's at the rate of about 8,000 a year and during the 1940's at about 25,000 a year. According to the most recent figures available there is no sign of a falling-off in British Columbia's growth. On an absolute basis, Ontario received almost the same number of people as British

<sup>1</sup> Canada Year Book, 1948-49, p. 137.



Columbia, but in relation to her larger population this growth was only a quarter as important.

The rapid increase in population has been accompanied by an increase in the production of both primary and secondary industries which has made it possible for the Province to maintain its high standard of living. The Dominion Bureau of Statistics shows the following increases in the net value of production in British Columbia:

1930.....	\$269.0 million
1940.....	286.4 million
1945.....	547.1 million
1947.....	769.4 million

On the basis of net production per capita, British Columbia ranks second among the provinces. Its figure of \$737 compares with \$617 for Canada as a whole in 1947. The comparative figures for 1947 are as follows:—

Ontario .....	\$759
British Columbia .....	737
Alberta .....	602
Quebec .....	558
Saskatchewan .....	542
Manitoba .....	495
New Brunswick .....	390
Nova Scotia .....	336
Prince Edward Island .....	232
Canada .....	617

The following figures show the development of the economy in terms of the gross value of production of its basic industries:—

(a) Forestry — Gross value of production (including sawmills, shingle mills, pulp and paper mills and logging):—

1930.....	\$69.7 million
1940.....	102.8 million
1945.....	147.7 million
1949.....	360.0 million <sup>1</sup>

(b) Mining—Gross value of production:—

1930.....	\$56.0 million
1940.....	75.7 million
1945.....	63.3 million
1949.....	133.0 million <sup>1</sup>

(c) Agriculture—Gross value of production:—

1930.....	\$56.0 million
1940.....	52.3 million
1945.....	103.0 million
1949.....	145.0 million <sup>1</sup>

<sup>1</sup> Estimate.



(d) Fisheries—Gross value of production:—

1930.....	\$23.1 million
1940.....	21.7 million
1945.....	44.5 million
1949.....	58.0 million <sup>1</sup>

The varied natural resources of British Columbia have resulted in the establishment of a diversified manufacturing industry. Industrialization has been rapid. In terms of value of production manufacturing is the leading industry of the Province and is continuing to grow. The estimated gross value of manufactures has increased as follows:—

1930.....	\$227.4 million
1940.....	311.0 million
1945.....	628.9 million
1947.....	858.2 million
1949.....	960.0 million <sup>1</sup>

While the foregoing figures reflect in part the post-war rise in prices, they also reflect a large and continuing increase in physical production. The index of employment for all industries in the Province rose from 107.7 in 1939 to 175.1 in 1945 and to 200.4 in 1949.

As a further measure of the rapid rate of development and of economic activity in the Province, the following figures should be noted:

(a) Electric Power Consumption:

1930.....	1.2 million KWH
1940.....	2.1 million
1945.....	2.8 million
1949.....	3.6 million

(b) Construction Contracts awarded:

1930.....	\$33.0 million
1940.....	17.2 million
1945.....	38.0 million
1949.....	79.4 million

(c) Retail Sales:

1930.....	\$248.6 million
1940.....	248.3 million
1945.....	438.8 million
1949.....	768.2 million

The relatively large income produced by the wealth of British Columbia is reflected in Federal tax collections in the Province. On the basis of statistics issued by the Department of National Revenue reporting collections of personal and corporation income taxes and succession duties in 1949, per capita collections were highest in British Columbia, being a little higher than in Ontario and substantially higher than the Canadian average. The figures are as follows:

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<sup>1</sup> Estimate.



British Columbia .....	\$141.52
Ontario .....	141.23
Quebec .....	96.09
Manitoba .....	85.45
Alberta .....	66.36
New Brunswick .....	47.43
Nova Scotia .....	43.12
Saskatchewan .....	38.72
Prince Edward Island .....	34.61
Canada .....	103.65

It is of interest to compare the total of these tax collections in 1949 by groups of provinces:

Ontario .....	\$622.9 million
Quebec .....	373.5 million
British Columbia .....	157.6 million
Prairie Provinces .....	157.6 million
Maritime Provinces .....	55.5 million

It will be noted that the amount collected in British Columbia in 1949 was equal to the total collected in the three Prairie Provinces and was almost three times the amount collected in the Maritime Provinces.

It is of further interest to note that whereas the total of these taxes collected in Canada in the fiscal year ending in 1949 was 4.7 per cent less than the total collected in the fiscal year ending in 1947, the amount collected in British Columbia in 1949 was 12.6 per cent more than in 1947, the year when the Tax Rental Agreement was signed.

The figures which have been presented establish a growth and development in British Columbia at a rate more rapid than that of the rest of Canada. The growth, reflected by the large increase in population and in production and income, has been made possible by the natural wealth on which the economy is based—a wide range of rich natural resources, including timber, minerals, fish, hydro-electric power and farm products, which have produced a diversified economic development covering both primary and secondary industries.

British Columbia submits that the living standards of its people and the financial requirements of its Government must be related to and considered in the light of its income which is essentially the product of its natural wealth. It submits that its resources entitle its people to a high standard of living and to high standards of welfare services if they so desire. It submits that its increasing population and the recent and continuing expansion of its economy have increased and are continuing to increase the responsibilities of the Provincial Government, under the present distribution of governmental functions in Canada. It, therefore, submits that the Province requires and its production and income warrant large and expanding sources of revenue.



### III. BRITISH COLUMBIA

#### *Government Functions and Expenditures*

The rapid growth and development of British Columbia have necessitated a large expansion in existing government services and the introduction of new services. The principal contributing factor has been the increase of over 40 per cent in population between 1939 and 1949. The rise in population is continuing.

In appraising the expansion in government services since 1940 it is necessary to have regard to this increase in population as well as to such other factors as the general growth and development of the economy, the restriction of government services during the depression years of the 1930's, and the deferment of ordinary expenditures during the war years which followed. It is also necessary to have regard to the influence of social and economic progress which has everywhere contributed to a marked increase in the functions and responsibilities of government.

The large increase in both provincial and municipal budgets in the past few years is explained only in part by the expansion of government services. It is in large part also attributable to the post-war rise in prices and wages. Hence, even if population and services had remained static, the costs of government in the post-war years would have been substantially higher than before.

British Columbia has, of course, not been alone in experiencing a very large increase in expenditures. It shares its recent experience in this regard with all governments in Canada and elsewhere. The budget of the Federal Government has risen from about half a billion dollars in the pre-war years to some \$2,400 million today. While war expenditures have contributed greatly to this increase, it is in large part also the result of expansion in the civilian functions of government. A comparative summary of the financial estimates of the Federal Government for the fiscal years 1938-39 and 1950-51 shows such substantial changes as the following:<sup>1</sup>

	1938-39	1950-51
Civil Salaries and Wages .....	\$77,101,774	\$313,203,874
Professional and Special Services.....	2,599,223	17,258,201
Travelling and Transportation Expenses	4,742,206	22,744,354
Materials and Supplies .....	6,586,105	76,510,901
Building, Works and Structures:		
(a) Acquisition or Construction, including purchase of Land.....	35,830,565	168,575,705
(b) Maintenance and Repairs.....	3,664,294	33,551,248
Equipment:		
(a) Acquisition or Construction....	14,797,962	147,676,028
(b) Maintenance and Repairs.....	1,796,803	26,637,289
Family Allowances Payments.....	-----	307,000,000

<sup>1</sup> House of Commons: Standing Committee on Public Accounts. Minutes of Proceedings and Evidence, May 5, 1950, p. 255.



	1938-39	1950-51
Old age pensions, including Pensions to the Blind .....	30,540,800	103,626,000
Government's Contribution to Unemployment Insurance Fund.....	.....	23,000,000
General Health Grants.....	.....	25,000,000
Trans-Canada Highway Contributions..	.....	20,000,000

The foregoing figures are submitted both to illustrate the rising costs of government and the contribution thereto of new and growing social welfare measures. They show increases in costs reflecting the expansion of services and the rise in prices and wages. They also illustrate the increasing welfare functions of the State. For example, whereas family allowances, unemployment insurance, and Federal health grants did not exist in 1938-39, the estimates for 1950-51 provide \$355 million for these services, apart from the costs of administration. With a flexible revenue system, particularly in a period of rapidly rising national income, the Federal Government has been able to finance its growing responsibilities without great difficulty. The experience of British Columbia, however, notwithstanding its large increase in population, production, and income, has been different.

An analysis of the rising costs of government in British Columbia since 1940 shows that they are in largest part attributable to increasing expenditures on health, welfare, and education, and on highways and public domain. These increased expenditures have been called for by the growth and industrial development of the Province; they are essential for the promotion of the economic security and welfare of the citizens and for the maintenance and increase of employment and income. The Province has, in fact, been giving effect to the following objectives of the Federal Government, as stated in 1945 in its proposals to the Dominion-Provincial Conference on Reconstruction:

In familiar terms, our objectives are high and stable employment and income and a greater sense of public responsibility for individual economic security and welfare.

Having regard to the fact that the population of British Columbia is continuing to grow and its economy to expand and that rapid industrialization is a feature of this expansion, the costs of government will continue to rise. The Province must be in a financial position to discharge its expanding responsibilities. These may be appraised in terms of the increase in expenditures in recent years.

Total current expenditures, including sinking fund contributions and debt retirement, have in the past twenty years increased as follows:



Fiscal year ended March 31	
1930	\$26.2 million
1940	29.4 million
1945	33.9 million
1946	38.0 million
1947	46.3 million
1948	63.5 million
1949	87.4 million
1950	108.7 million <sup>1</sup>

It is important to analyse these figures. They show that during the fifteen-year period from 1930 to 1945, covering the years of depression, of recovery, and of war, expenditures rose by only 27.5 per cent, as compared with an increase of more than 40 per cent in population. The restriction of services and the deferment of expenditures during these fifteen years led inevitably to a large increase in expenditures following the termination of the war. Growth and development and the post-war inflation multiplied the increase. Accordingly, whereas in the fiscal year 1946–47 current expenditures amounted to \$46.3 million, the preliminary figure for 1949–50 is \$108.7 million—an increase of almost 135 per cent since the last fiscal year before the Dominion-Provincial Tax Rental Agreement went into effect.

### *Education*

The main increases have occurred in the costs of services, such as education and public welfare, which are immediately affected by population growth. The Government's current expenditures on education have risen as follows:<sup>2</sup>

Fiscal year ended March 31	
1930	\$4.2 million
1940	4.5 million
1945	4.8 million
1946	5.2 million
1947	9.0 million
1948	11.3 million
1949	12.8 million
1950	14.3 million <sup>3</sup>

Grants to school districts are the principal item in the foregoing figures rising from \$3.5 million in 1944–45 to \$9.3 million in 1949–50.

<sup>1</sup> Preliminary figure.

<sup>2</sup> Current expenditures on education and other services are presented on a functional basis in this brief. Accordingly, debt charges and general government costs are shown separately.

<sup>3</sup> Preliminary figure.



In addition, the Province pays 50 per cent of the costs of construction and furnishing new school buildings.

Apart from capital grants, annual grants to the University of British Columbia have increased from \$500,000 in 1944-45 to \$1.6 million in 1949-50, while the number of students has increased from 2,600 to 7,600.

To appraise the rise in the cost of education it is important to note the following increase in elementary and secondary school population:—

1930.....	111,017
1940.....	120,459
1946.....	130,605
1947.....	137,827
1948.....	146,708
1949.....	155,515
1950.....	166,635

It is estimated that the school population may exceed 200,000 by 1953 and that it may reach 250,000 between 1956 and 1957. It is, therefore, clear that education will continue to be an expanding function of government requiring large annual increases in expenditures. In estimating the financial requirements therefor account must be taken not only of the increase in school population but also in costs. Total operating costs (including school district debt charges) per pupil in elementary and secondary schools have risen as follows:—

1940.....	\$76.60
1946.....	98.39
1947.....	118.74
1948.....	131.78
1949.....	149.88
1950.....	157.65

In the light of the foregoing it is submitted that British Columbia requires expanding sources of revenue to meet the expanding financial requirements of its constitutional responsibility in the field of education. It is submitted that the Federal Government should assist in the discharge of this responsibility by sharing in government grants for university education, as was suggested by the Rowell-Sirois Commission.<sup>1</sup>

### *Public Welfare*

The increase in population and rapid industrialization are largely responsible for the very marked increase in British Columbia's expenditures on public welfare services. In dollar terms, estimates of expenditures of \$29.8 million on health and welfare in the fiscal year 1950-51 are higher than current expenditures on all services in 1940-41. Total public welfare costs have risen as follows:—

<sup>1</sup> Commission Report, Book II, p. 52.



Fiscal year ended March 31	
1930	\$4.1 million
1940	5.6 million
1945	9.1 million
1946	9.9 million
1947	11.5 million
1948	16.4 million
1949	22.7 million
1950	26.1 million <sup>1</sup>

These figures show an increase of more than 132 per cent in 1949–50, as compared with 1946–47, the last fiscal year before the Tax Rental Agreement. The rising costs must be analysed in terms of the principal items of expenditure.

#### (a) *Old Age Pensions*

The immigration of elderly people from other parts of Canada has always been an important factor affecting public welfare costs in British Columbia. This explains in part the rapidly increasing costs of old age pensions, the provincial share of which has risen as follows:—

Fiscal year ended March 31	
1930	\$474,000
1940	680,000
1945	1.8 million
1946	1.9 million
1947	2.3 million
1948	3.7 million
1949	4.6 million
1950	6.1 million <sup>1</sup>

These figures do not measure the total costs to the Province, since old age pensioners in British Columbia also receive free hospitalization, paid by the Province, and free medical, optical, and dental services and drugs, of which 80 per cent of the costs are paid by the Province and 20 per cent by the municipalities.

The rise in old age pensions costs during and since the war is explained by the increase in the number of old age pensioners, the increase in the basic pension, the increase in the allowable income of pensioners, and, since 1946, the cost-of-living bonus of \$10.00 per month paid by the Province.

<sup>1</sup> Preliminary figure.



In the last 20 years the number of pensioners in British Columbia has grown as follows:

1930.....	4,855
1940.....	13,676
1946.....	16,977
1947.....	18,409
1948.....	22,081
1949.....	26,213
1950.....	29,617

Having regard to population trends, the Province will have to be in a position to finance its share of pensions for perhaps 40,000 pensioners in five or six years and possibly 50,000 in ten years. It therefore faces a continuing annual increase in old age pensions costs which is in part attributable to immigration from other parts of Canada. The freedom of inter-provincial migration, which is essential to national unity, has thus added to the growing financial burden of old age pensions in British Columbia.

The Province submits that, having regard to other expanding responsibilities, its sources of revenue are presently inadequate and too inflexible to meet the growing costs of pensions. It further submits that old age pensions are a national problem and should, therefore, be financed entirely by the Federal Government. Failing the assumption of such responsibilities by the Federal Government, British Columbia will require larger sources of revenue to enable it to meet its own growing responsibilities in this field.

The Province submits that the time is opportune for the introduction of a universal superannuation scheme on a compulsory contributory basis, with pensions payable at the age of 65 years. The necessity for such a system becomes apparent when consideration is given to the difficulties in obtaining employment which are now faced by persons over 40 years of age because financial considerations prevent their inclusion in the employee pension plans of governments and of private industry. Although the need for old age assistance on a large scale would continue for some years after its introduction, it is submitted that a universal contributory superannuation scheme is essential for the ultimate solution of a growing problem.

It is further submitted that, in introducing such a scheme, consideration should be given to the recommendation of the Rowell-Sirois Commission "that the Dominion should be empowered to include in a compulsory contributory system provision for pensions for widows and orphans of annuitants and provision for pension on retirement from industry due to invalidity or permanent disability." <sup>1</sup>

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<sup>1</sup> Commission Report, Book II, p. 41.



*(b) Social Assistance and Unemployment Relief*

Another field of welfare expenditures showing rapidly rising costs and affected by the movement of population from other provinces into British Columbia is that of social assistance or relief for unemployables. The number of persons in receipt of social allowance payments has increased since the end of the war as follows:

Fiscal year ended March 31	
1946.....	9,042
1947.....	10,753
1948.....	12,429
1949.....	15,230
1950.....	17,775

In the same period total costs of social assistance, represented in the main by social allowance payments to unemployables, have risen as follows:

Fiscal year ended March 31	
1946.....	\$1.7 million
1947.....	2.0 million
1948.....	3.1 million
1949.....	4.3 million
1950.....	5.0 million <sup>1</sup>

The Province pays 100 per cent of the costs of assistance to "provincial" cases and 80 per cent of the costs of "municipal" cases, the municipality of residence paying the balance of 20 per cent. Hospital insurance premiums in all cases are paid entirely by the Province.

It is important to note that the number of persons in receipt of social allowances as a percentage of the total population has been increasing annually since 1946. Since a continuing increase in expenditures on relief for unemployables is inevitable, the Province requires expanding sources of revenue to meet these rising costs. The provision of survivors' pensions and disability pensions under a contributory scheme, as suggested by the Rowell-Sirois Commission would tend to relieve provincial budgets from some of these costs.

Social allowance payments are made on the basis of need and to unemployables only. They do not cover unemployment relief for employables, which in the depression of the 1930's imposed an enormous financial burden on the Province. British Columbia submits that relief for employables, whose unemployment insurance benefits have expired or who have worked in non-insurable occupations, is a matter of national concern. It calls for the implementation of the 1945 proposal of the Federal Government to assume full responsibility for the "unemployed

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<sup>1</sup> Preliminary figure.



employables," which term must be properly defined to cover previously self-employed persons and others, including agricultural workers and fishermen, who may not fall within the scope of the national unemployment insurance system.

(c) *Provincial Institutions*

Increase in population, expansion of services and rising costs have all contributed to a substantial increase in the operating and maintenance costs of provincial institutions, including mental hospitals, tuberculosis sanatoria, and infirmaries. The costs have risen as follows:

Fiscal year ended March 31	
1930	\$1.3 million
1940	2.1 million
1945	2.9 million
1946	3.3 million
1947	4.0 million
1948	5.8 million
1949	7.1 million
1950	7.7 million <sup>1</sup>

The net operating costs of mental hospitals alone rose from \$1.7 million in 1945–46 to approximately \$3.9 million in 1949–50. Per capita costs (excluding debt charges) per patient increased from \$1.63 in 1946 to approximately \$3.00 in 1950. The average number of patients has increased as follows:

1930	2,378
1940	3,671
1946	4,058
1950	4,487

The rise in operating expenditures of mental hospitals is certain to continue with the increase in the population of the Province, while large capital expenditures must be incurred to provide additional accommodation for patients.

Current net provincial expenditures on tuberculosis sanatoria have also risen and, with increasing population, will continue to rise. The increase in the costs of institutional service has been as follows:

Fiscal year ended March 31	
1940	\$543,000
1946	786,000
1950	1.8 million <sup>1</sup>

Continuing increases must also be anticipated in the operating costs of such other provincial institutions as homes for the aged and infirm,

<sup>1</sup> Preliminary figure.



which rose from \$41,000 in 1939-40 to approximately \$358,000 in 1949-50. It is of interest to note that in 1948, as reported by the Dominion Bureau of Statistics, 7.5 per cent of the population of Canada was 65 years of age or over as compared with 9.9 per cent in British Columbia. This comparison is significant in appraising the rising costs of various welfare services in the Province.

The province must be in a financial position to discharge its responsibilities in the fields of mental health and aid to the infirm. Federal health grants, introduced in 1948 have been helpful but are not substantial in relation to total provincial costs. It is submitted that the unexpended portion of the mental health grant in any one year should be made available in the next fiscal year.

(d) *Public Health*

Provincial health expenditures show a rapid increase since the end of World War II. The increase is continuing. Excluding Federal grants and certain institutional care, the figures are as follows:

Fiscal year ended March 31	
1940	\$377,000
1945	637,000
1947	1.0 million
1950	2.4 million <sup>1</sup>

While Federal health grants, introduced in 1948, have given an impetus to the expansion of provincial public health services, it is necessary that they be reviewed. The grants are not statutory and therefore do not offer sufficient assurance of their continuation. The Province fears that it may find itself committed to an expanded health program on the strength of Federal grants which may at any time be discontinued. It submits that the health grants should be placed on a statutory basis.

It is further submitted that the present grants are too inflexible. They appear to be based upon the assumption that all provinces have attained similar standards in health services and are, therefore, in a position to participate in a common program of future development. A national health program must be more comprehensive and more flexible in that it must have regard to the different stages of development of health services in the various provinces.

(e) *Hospital Grants*

The increasing costs of operation and maintenance of public hospitals have constituted a major problem in British Columbia as in the other provinces. The Provincial Government has for some years made hospital grants at a basic rate of 70 cents per patient per day, in addition to special grants in cases of particular financial difficulties. The grants

<sup>1</sup> Preliminary figure.



were formerly paid directly to the hospitals but since the enactment of the Hospital Insurance Act, 1948, they are being paid into the hospital insurance fund. Total per diem grants were fairly stable at around \$1.2 million between 1940 and 1947 and have since risen to \$1.7 million.

In addition to the per diem grants, legislation was enacted in 1948 allocating approximately 80 per cent of the revenue from the provincial amusements tax to assist in financing essential hospital construction. The revenues so allocated to establish a sinking fund for and to pay interest on provincial borrowings for hospital construction amounted to \$1.4 million in each of the fiscal years ending in 1949 and 1950 and are estimated at \$1.7 million for 1950-51.

The present policy of financing hospital construction in the Province is as follows: the community or hospital provides one-third of the costs; the Provincial Government makes an outright grant of one-third of the cost; Federal health grants may contribute \$1,000 for each active treatment bed and \$1,500 for each chronic and convalescent treatment bed; and the balance or difference between the Federal grant and one-third of the costs is provided by the Provincial Government as a repayable advance. It is important to note the large proportion of the cost which the Province has found it necessary to assume, with consequent effects on provincial debt and annual debt charges. It is also important to note that the Federal grant of \$1,000 or \$1,500 per bed compares with an actual cost of about \$10,000, and that this grant makes no allowance for necessary ancillary construction and services, such as nurses' home, X-ray quarters, laboratory, etc.

The Province submits that the Federal grant per bed should be increased with due regard to the increasing costs of construction; that, in any event, the grant should seek to encourage construction of fire-resistant buildings as against non-fire-resistant frame buildings by doubling the amount payable for buildings of approved reinforced concrete, or equal, construction; and, that the Federal grant should be increased to cover a portion of the cost of minimum necessary ancillary hospital construction and services.

#### *(f) Hospital Insurance*

The most important single development in the public welfare services of the Province in recent years was the introduction of hospital insurance in 1948. The service was introduced both to provide hospital insurance coverage for all residents of the Province at reasonable premium rates and to provide a method of financing the hospitals of the Province which faced increasingly large operating deficits in the post-war years. After two years of operation the hospital insurance service has greatly improved the financial position of the hospitals and has provided a reasonable degree of security against hospital bills for the people of the Province.



Annual premium payments for hospital insurance are \$33 for the head of a family and \$21 for a single person, the Provincial Government paying the premium for all persons in receipt of old age pensions, blind pensions, social allowance, and mothers' allowance. Total premiums collected from January 1, 1949, to March 31, 1950, amounted to \$18.4 million, including \$4.5 million applicable to the fiscal year 1950-51. Premium payments for the fiscal year 1950-51 are estimated at approximately \$13.5 million, which measures the annual burden assumed by the citizens of British Columbia for hospital insurance.

The service showed a deficit of more than \$4.7 million in the period from January 1, 1949, to March 31, 1950, which was financed out of accumulated revenue surpluses, while the estimates for 1950-51 provide out of current revenues for an anticipated deficit of about \$2.5 million. In appraising these costs, it is important to remember that if the hospital insurance service had not been introduced the Government would have been called upon to contribute increasingly large amounts to meet hospital deficits. The service has made it possible for hospitals to continue operations without fear of having to close their doors and has removed the financial worry caused by illness necessitating hospital treatment.

In introducing hospital insurance the Government of British Columbia has provided for a basic need of its citizens. This need was recognized by the Federal Government in the national health program submitted to the Dominion-Provincial Conference in 1945, which included a proposal "designed to put provincial governments in a financial position to develop and administer a comprehensive health insurance program worked out by progressive stages on an agreed basis."<sup>1</sup> The first stage of the program included hospital care for which the estimated cost per capita was then fixed at \$4.60. On this basis the Federal Government declared its readiness to contribute a maximum per capita grant of \$2.76. If implemented, this would have meant a maximum grant to the British Columbia hospital insurance service in 1950 of over \$3 million, which amount would be considerably higher with an upward adjustment of the per capita grant corresponding to the increase in hospital costs since 1945.

The Province submits that the Federal proposal of 1945 to assist in the provision of hospital insurance by grants to the provinces on a per capita basis should now be implemented, and that such grants should be adjusted in relation to current costs. It further submits that failing such implementation, it will require a correspondingly larger increase in revenues to finance the obligations which it has assumed.

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<sup>1</sup> Proposals of the Government of Canada, 1945, p. 31.

## Highways and Bridges

The continued growth and development of British Columbia are in large part dependent upon adequate and improved transportation facilities. In this field it has in the post-war years been called upon to meet a large backlog of expenditures. The Rowell-Sirois Commission in 1940 pointed out that the Province's expenditures on roads and other public works "were reduced to virtually nothing in the depths of the depression."<sup>1</sup> Necessary construction and maintenance work were further deferred by wartime restrictions. Accordingly, current expenditures on roads and bridges began to show a substantial rise only after 1947 in a period of rapidly rising costs. The figures are as follows:

Fiscal year ended March 31	
1930	\$2.9 million
1934	1.4 million
1940	2.9 million
1945	2.8 million
1946	3.1 million
1947	3.3 million
1948	8.9 million
1949	12.0 million
1950	14.4 million <sup>2</sup>

Since the Federal Government retired from the field of gasoline taxation in 1947 the Province has applied the proceeds of 3 cents per gallon on all fully taxed gasoline to the hard surfacing of roads. Beginning in 1951 these proceeds will be set aside in a special highway development fund to pay interest and sinking fund charges on moneys borrowed to finance the Province's highway development program, for which borrowing is now authorized to an amount of \$91 million. British Columbia, therefore, faces continued large expenditures on highway development and maintenance, expenditures which are essential to further development and increased production.

The Province has now entered into an agreement with the Federal Government with respect to the construction of the Trans-Canada Highway. It is submitted that Federal participation in the financing of additional approved main trunk highways is also essential. Furthermore, pursuant to its 1945 proposals, the Federal Government should assist in financing highways constituting international connections, air port connections, and approaches to national parks.

## Public Domain

The economy of British Columbia being dependent upon the development of its natural resources, expenditures on public domain are a highly

<sup>1</sup> Commission Report, Book I, p. 243.

<sup>2</sup> Preliminary figure.



productive investment. These expenditures were necessarily restricted during the depression years and the war years. They have been rising since 1946 but are still inadequate in terms of the requirements of further growth. Total current expenditures on public domain have been as follows:—

Fiscal year ended March 31	
1930.....	\$1.9 million
1940.....	2.0 million
1946.....	2.6 million
1948.....	5.0 million
1950.....	10.6 million <sup>1</sup>

The principal increase has occurred in forest service expenditures, which, because of the setting up of a large forest protection fund, have risen from \$1.1 million in 1944–45 to over \$4 million in 1949–50. Expenditures on other public domain services, including mines, lands, water power, and game, continue to be relatively small, particularly when their importance to the Province and to Canada are considered. It must be remembered that under the Tax Rental Agreement the taxes derived from the use of the natural wealth of British Columbia are largely paid to the Federal treasury.

Provincial expenditures on agriculture are also small, as is shown by the following figures:—

Fiscal year ended March 31	
1930.....	\$475,000
1940.....	285,000
1945.....	399,000
1947.....	502,000
1950.....	864,000 <sup>2</sup>

In 1945 the Federal Government proposed a public investment policy intended to develop the nation's resources with a view to the expansion of the productive wealth of the country. Recognizing the fact that "public investment has a major role to play in the conservation and development of mineral, forestry, agricultural and fishery resources," the Government declared its readiness to enter into agreements which would provide assistance to provincial activities as follows:<sup>3</sup>

1. Assistance to raise provincial standards in the general national interest in respect to the conservation, protection and development of provincial natural resources;

<sup>1</sup> Preliminary figure, including \$2.9 million for flood damage.

<sup>2</sup> Preliminary figure.

<sup>3</sup> Proposals of the Government of Canada, 1945, pp. 24–25.

- (i) agriculture—extension of conservation activities to all provinces, e.g., water conservation, land drainage, marsh land rehabilitation, land clearing, soil erosion control;
- (ii) protection and management of forests, including fire protection in remote areas, protection against insects and disease, and silvicultural practices; and fur conservation. Particularly the Dominion is prepared to take an immediate and active part in organizing effective joint control measures against forest insect depredations.

2. Assistance to provide new access roads to undeveloped mining and forest resources.

It is submitted that the Federal Government should now declare its readiness to enter into agreements to provide assistance along these lines to provinces which are prepared to negotiate on these matters.

With respect to forestry, British Columbia draws attention to the Canada Forestry Act of 1949, which authorizes the Federal Government to:—

enter into agreements with any province for the protection, development or utilization of forest resources, including protection from fire, insects and diseases, forest inventories, silvicultural research, watershed protection, reforestation, forestry publicity and education, construction of roads and improvement of streams in forest areas, improvement of growing conditions and management of forests for continuous production.

It is submitted that under this legislation consideration should be given to a flexible agreement for the protection and development of forest resources which would provide for progressively increasing contributions by the Federal Government until the appropriate provincial forestry expenditures are matched on a dollar for dollar basis. Such an agreement would materially assist in the protection and further development of British Columbia's forest resources in the national interest.

With respect to mining, it is essential that the Province increase mining road appropriations in order to encourage exploration and development in the undeveloped parts of its territory. It is submitted that, in accordance with its proposal of 1945 and in the national interest, the Federal Government should share in the provision of such new access roads to undeveloped mining resources.

With respect to agriculture, British Columbia submits that the Federal Government should implement its proposal to enter into agreements to assist in financing the extension of conservation activities.

### *General Government*

British Columbia, in common with all other governments, has, since the end of the war, experienced a very substantial increase in the costs



of general government, that is, costs of administration and management. The increase reflects the expansion of existing government services and the introduction of new services, the consequent increase in the number of government employees, the rise in salaries and wages and the payment of cost-of-living bonuses, increased contributions to superannuation, and higher costs generally. Current expenditures on general government have risen as follows:

Fiscal year ended March 31	
1930.....	\$2.1 million
1940.....	2.9 million
1945.....	3.8 million
1950.....	11.6 million <sup>1</sup>

In comparing the figures for 1944–45 with that for 1949–50, it must be noted that the latter includes \$3.2 million for cost-of-living bonuses.

*Aid to Municipalities*

British Columbia’s budget cannot be properly appraised unless regard is had to provincial-municipal financial relations. Reference has already been made in this brief to the large amounts paid as school grants and to the increasing expenditures which represent the Province’s share of 80 per cent of the costs of social assistance. These large sums are in effect aid to municipalities. In addition, the Province pays to the municipalities one-third of the revenues from the Social Security and Municipal Aid Tax, that is, the sales tax, which came into effect in 1948, and one-third of the revenues from motor-vehicle licences. The municipal share of these revenues has increased greatly since 1947, as is shown by the following figures:

Fiscal year ended March 31	
1947.....	\$1.3 million
1948.....	1.5 million
1949.....	6.4 million
1950.....	9.5 million <sup>1</sup>

It follows that the provincial budget of British Columbia provides for more than provincial requirements proper. Thus, in addition to very large amounts in aid of such specific municipal services as schools and social assistance, expenditures in 1949–50 included an amount of \$9.5 million paid to the municipalities as their statutory share of two major sources of provincial revenue. Total aid to municipalities, including direct grants, shared taxes, and indirect aid, is estimated at approximately \$26.8 million in 1950–51, as compared with less than \$3 million in 1941–42.

<sup>1</sup> Preliminary figure.

Municipal finances have in the post-war years been affected by the same factors which have contributed to the rapid rise in expenditures of the provincial and other governments. With limited revenue sources, the municipalities could not properly discharge their growing functions without readjustments in provincial-municipal relations involving substantially larger provincial grants and a limitation of the municipal responsibility for certain general services. Since the proper performance of municipal functions is a matter of provincial concern, the Province has effected the necessary readjustments. These account for a substantial part of the increase in provincial expenditures in the past decade and, more particularly, in the post-war years.

*Debt Charges*

The growth and development of the Province now require large capital expenditures for schools, hospitals, railways, roads, and other projects. In consequence the Province faces growing debt charges. While interest payments declined during the war years, when debt was reduced and capital expenditures were postponed, they are now beginning to show a marked rise, as appears from the following figures:

Fiscal year ended March 31	
1940	\$7.9 million
1945	6.3 million
1947	6.1 million
1949	5.7 million
1951	7.3 million <sup>1</sup>

The net debt of the Province declined from \$148.3 million in 1940 to \$124.2 million in 1948. It rose to \$150.5 million as at March 31, 1950. It will continue to increase because of the extensive but essential capital program planned for the next ten years. It is estimated that the construction of highways and bridges alone will require more than \$91 million by the end of the fiscal year 1956–57. The provincial share of the hospital construction program will be large. Many millions will be required for school construction, of which the Province bears 50 per cent of the cost. Additional sums will be required for mental hospitals and other institutions. The debt is also being increased by the costs of necessary extensions to the Pacific Great Eastern Railway.

The increase in debt will not only require larger provision for interest payments but also for sinking fund instalments and debt redemption. The declining revenues and the heavy costs of unemployment relief during the depression years compelled the Province to discontinue full payment of sinking fund instalments. Certain maturities were subsequently met with the assistance of revenue surpluses. Since 1947–48

<sup>1</sup> Estimate.



full provision has again been made for sinking fund instalments and the deficit has now been reduced to approximately \$9 million. Provision for sinking fund and debt retirement out of current revenues, apart from payments out of revenue surpluses, has increased as follows:

Fiscal year ended March 31	
1940	\$ 830,000
1945	1.8 million
1947	3.4 million
1949	7.7 million
1950	12.2 million <sup>1</sup>

The increasing debt charges which the Province now faces arise from the requirements of growth and are essential to its further development. Municipal debt charges are increasing for the same reasons.

It is estimated that new capital borrowings by municipalities will approximate at least \$15 million annually for the next five years.

In 1945 the Federal Government proposed a public investment policy under which it would assist in financing provincial and municipal projects on an agreed basis. It is submitted that this proposal should now be reconsidered. It is further submitted, in the light of municipal development and the postponement of major projects during the war years, that legislation along the lines of the Municipal Improvements Assistance Act of 1938 should again be introduced.

Total current expenditures in 1949–50, on the basis of preliminary figures, amounted to \$108.7 million. This is admittedly a high figure, representing, as has already been pointed out, an increase of almost 135 per cent since 1946–47, the last fiscal year before the Dominion-Provincial Tax Rental Agreement went into effect. In appraising the increase, it is important to have regard to the functional distribution of expenditures, which, in 1950–51, is estimated as follows:

	Per Cent
Public Welfare	28.25
Education	14.20
Debt Charges	13.68
Highways, Bridges and Ferries	12.50
General Government	11.85
Municipal share of provincially-collected taxes	9.02
Public Domain	7.59
Administration of Justice	2.91
	<hr/> 100.00

It will be noted that approximately 42.5 per cent of expenditures in the current fiscal year will be devoted to health, welfare, and education.

<sup>1</sup> Preliminary figure.

These costs, as is shown by the experience of all modern states, are now in effect uncontrollable and are subject to automatic increases with increasing population and normal growth. Debt charges are fixed, while the expenditures on highways and public domain are essential for the expansion of the productive wealth of the country. The overhead costs of government are determined by its functions, by the rapid rate of the Province's growth, and by its geography. It is further important to note that the increase in costs in the post-war years was accelerated by the inflationary rise in prices and by the urgent need to provide for services on which expenditures had been deferred during the years of depression and of war.

British Columbia submits that an analysis of its principal expenditures points to a continued expansion which calls for larger provincial revenues as well as a re-allocation of certain financial responsibilities between the Federal and Provincial Governments. Such re-allocation with respect to old age pensions, hospital insurance, conservation of natural resources, and other services, have been recommended in this brief. The Province's need for additional revenues will be determined by the extent to which the Federal Government undertakes to implement these recommendations.

#### IV. BRITISH COLUMBIA

##### *Taxation and other revenues*

It has been submitted in this brief that British Columbia's rapid rate of growth based upon its rich natural resources warrants a high standard of living and of government services and that to satisfy the requirements of its citizens the Province needs and its production and income warrant large and expanding sources of revenue. In appraising this submission it is important to note certain conclusions with respect to British Columbia's revenues and expenditures contained in the report of the Rowell-Sirois Commission. In this report, made in 1940, the Commission said:<sup>1</sup>

The most striking feature . . . . is the comparison between the per capita revenues of the provincial government of British Columbia and the average of all Canadian Provinces. The British Columbia figure is nearly double the average. Municipal revenues are at the Canadian average, although a smaller portion of British Columbia is municipally organized than is the case in most provinces.

Nearly all the revenue sources produce higher returns than in the rest of Canada, but the most striking lead is in corporation taxation and public domain revenues. These are three times the Canadian average in yield per capita. They are made possible

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<sup>1</sup> Report of the Royal Commission on Dominion-Provincial Relations, 1940, Book I, pp. 241-244.



by the richness of some of British Columbia's natural resources and the highly concentrated corporate form of organization which has been adopted to exploit them. Gasoline taxes, liquor control profits and real property taxation all substantially exceed national averages and reflect the higher per capita income and purchasing power in British Columbia . . . . .

The provincial income tax, which was the first to be imposed in Canada, starts at a relatively low figure (single person's exemption \$600) and progresses to a rate of 10 per cent on all taxable income plus a surtax rising to 18 per cent on large incomes. As no exemption is allowed for Dominion income tax payments, the tax is a relatively heavy one on higher incomes. It has proved a stable source of revenue, and yields substantially more per capita than does the Ontario income tax, for example, but the double taxation involved is resented.

Expenditures on education and public welfare (excluding relief) are about one-third above the national per capita average, although they do not absorb quite as large a proportion of total municipal-provincial revenues as in other provinces. The notably high return from public domain and corporation taxation has made it possible for the Province to provide higher than average services, and has enabled the provincial government to contribute a substantially larger proportion of the total than in any other province (except Prince Edward Island) . . .

British Columbia's high provincial income combined with its high rates of taxation yields a very much larger than average government revenue, and have made possible the provision of government services of superior standard . . .

While the Commission asserted that the Province was to an important extent living on its capital and pointed to the difficulties which would arise when its natural resources are depleted, it added that:

. . . However, in the meantime British Columbia residents have the advantage of better education and better communal services than has the average Canadian citizen, and they have shown a willingness to maintain these standards by submitting to higher than average taxation.

The Rowell-Sirois Commission, which could not foresee the rapid growth of the past decade, thus confirmed in 1940 that British Columbia provided government services which were of a higher standard than elsewhere in Canada; that these services were financed by taxes which produced higher returns than in the rest of Canada, reflecting the larger per capita income produced by the natural wealth of the Province; and that the citizens were willing to submit to higher than average taxation in order to enjoy higher than average services. These were conclusions reached by the Royal Commission after an exhaustive study. The

Province draws particular attention to the emphasis on the higher per capita income of its citizens and the greater productivity of its revenue sources.

When the Commission reported in 1940 total current revenues of British Columbia amounted to \$32.8 million. Corporation taxes were the largest single source yielding approximately \$7.5 million or almost 23 per cent of the total. Corporation taxes, the personal income tax, and succession duties together produced more than one-third of total revenues. In 1941 the Province entered into the Wartime Tax Agreement with the Dominion under which, in the interests of the national war effort, it withdrew from the income and corporation tax fields in return for an annual payment of \$12 million, which was the amount obtained from these sources in 1940-41. The agreement became effective in the fiscal year 1941-42 and expired in 1946-47. It was replaced by the current Tax Rental Agreement which expires on March 31, 1952.

Under the present agreement the Federal Government guarantees to the Province a minimum annual payment of \$18,120,124 for the rental of the personal income tax, corporation taxes and succession duties. The minimum is the sum of the statutory subsidies payable under the Terms of Union plus \$12.75 per capita on the 1942 population plus 50 per cent of the provincial tax receipts from income and corporation taxes for the year ended March 31, 1941. The minimum rental is subject to adjustment upwards for increases in provincial population and in gross national product per capita averaged over the last three years. The estimated payment in 1950-51 is \$28.1 million. The terms of the agreement provide that pending the conclusion of similar agreements with all the provinces, British Columbia is to impose a corporation income tax of 5 per cent to be collected and administered by the Dominion Government. The returns from this tax are paid over to the Province and the amount is deducted from the total of the tax rental payment owing to it.

It may be noted that the Federal Government pays to all provinces, whether or not they have entered into a tax rental agreement, one-half of the Federal corporation income tax on income of corporations derived from generating and/or distributing to the public, electric energy, gas or steam, where this is the main business of the corporation.

In reviewing operations under the Tax Rental Agreement it is important to note the value of the tax fields which the Province temporarily vacated. It has already been shown that corporation taxes before the war were its most productive source of revenue and that corporation taxes, the personal income tax and succession duties together yielded more than one-third of current revenues. The Rowell-Sirois Commission pointed out in 1940 that the per capita yield of corporation taxation in British Columbia was three times the Canadian average, and that the personal income tax yielded substantially more per capita than did the same tax in Ontario. It has further been shown that in 1949 the Federal



Government's collections of corporation taxes, personal income taxes and succession duties were higher per capita in British Columbia than in any other province and substantially higher than the Canadian average.

If there had been no tax agreement and if the tax rates prevailing prior to the withdrawal from the fields of corporation taxation, the personal income tax, and succession duties had been retained, it is estimated that the Province would have collected more than \$41 million from these sources in the fiscal year 1949-50 as compared with the corresponding rental payment of \$24.5 million for that year. It is further estimated that approximately one-half of this rental payment represented the yield of the provincial corporation tax of 5 per cent imposed under the terms of the Agreement. These facts are important in reviewing the present arrangements.

It should be noted that while government expenditures were rising when the Tax Rental Agreement was negotiated in 1946-47, the rate of increase was relatively moderate. Current expenditures in that year amounted to \$46.3 million, showing an increase of \$17 million over 1939-40. These figures must now be compared with expenditures of \$108.7 million in 1949-50, an increase of 135 per cent over 1946-47. This rise could not have been foreseen when the Agreement was negotiated. The Province, therefore, soon found that its remaining sources of revenue were too limited to finance its rapidly expanding responsibilities. It was accordingly compelled to impose additional heavy taxation.

Apart from the tax rental payments, the following are the principal changes in taxation and revenues since 1946-47:

- (a) In 1948 the Social Security and Municipal Aid Tax, a 3 per cent tax on retail sales, was imposed. It yielded \$24.6 million in 1949-50 or more than total provincial revenues from all sources in 1934.
- (b) With the withdrawal of the Federal Government from the taxation of gasoline and amusements, provincial taxes were correspondingly increased. In 1947 the gasoline tax was raised from 7 cents to 10 cents per gallon. Revenues from this source have risen from \$5.7 million in 1946-47 to \$11.2 million in 1949-50. In 1948 the amusements tax was raised from 5 per cent to 25 per cent in most categories, the rates being reduced to 17½ per cent in 1950. The tax yielded a little less than \$1 million in 1946-47 and approximately \$3.2 million in 1949-50.
- (c) The remaining principal sources of revenue are liquor profits, which rose from \$14.8 million in 1946-47 to \$17.9 million in 1949-50; motor vehicle revenues, which increased from \$4.5 million to \$7 million; and public domain revenues, which rose from \$7.1 million to \$10.5 million, the increase representing principally the rise in sales of timber from Crown lands.

- (d) Estimated receipts from hospital insurance premiums in 1950–51 amount to \$13.5 million. While these are payments for a specific service, they represent a levy which was not imposed in 1946–47.

Total current revenues in 1946–47 amounted to \$56.8 million as compared with anticipated revenues of \$110.3 million in 1949–50. An analysis of the principal sources of revenues in the current fiscal year shows the following percentage distribution:

	Per Cent
(a) Dominion Tax Rental payments.....	26.08
(b) Taxes—	Per Cent
Social Security and Municipal Aid Tax.....	22.68
Gasoline Taxes .....	10.58
Others .....	7.42
	40.68
(c) Licences, Permits, and Fees—	
Motor-vehicle licences .....	6.02
Others .....	1.72
	7.74
(d) Public Domain .....	7.72
(e) Liquor Profits .....	15.87
(f) Miscellaneous .....	1.91
Total .....	100.00

A further analysis of current revenues show that, even with the new and increased taxes, they are not sufficiently elastic in relation to the high rate of expansion in the financial responsibilities of the Province. The rapid rise in expenditures is continuing and, as has been shown, is to a large extent uncontrollable. It is of interest to note, for example, that while the original estimate of expenditures in 1949–50 was \$92.3 million, actual expenditures exceeded \$108 million. If accumulated revenue surpluses, the total of which is now small, had not been available to finance the hospital insurance deficit, the operations of the fiscal year 1949–50 would have resulted in an over-all deficit.

While new taxes have been imposed and other revenues have increased, the rate of increase in the yield of some of the principal revenue sources, such as liquor profits, is now showing a noticeable decline. The Province, therefore, can no longer depend upon the sources of revenue under its control to meet the annual increase in expenditures which is inevitable for some years. Having regard to the relatively higher yield of Federal taxes in British Columbia, it submits that it is justly entitled to a larger share of such taxes to assist it in financing its responsibilities, which include the responsibility of conserving and developing the resources from which the tax revenues are in fact derived. Accordingly, the Province recommends that the current Tax Rental Agreement be renewed for a further period of five years with an increase in the annual tax rental payment, such increase to be determined by the extent to which the Federal Government undertakes to imple-



ment the recommendations which have been made with respect to a re-allocation of financial responsibilities between the Federal and Provincial Governments.

If the Tax Rental Agreement is renewed, the Province will withdraw from the fields of corporation taxes, the personal income tax, and succession duties for a further period of five years. In this connection the following recommendation of the Rowell-Sirois Commission should be noted:<sup>1</sup>

. . . The Dominion, for its part, should be able and willing to refrain from competing with the provinces in respect of sources of revenue left to them and should leave the provinces free to collect these revenues in whatever way appears to them the most efficient even if the method of indirect taxation should be involved.

British Columbia submits that this recommendation should be implemented. The Province now derives almost 40 per cent of its revenues from sales taxes, such as the Social Security and Municipal Aid Tax, the gasoline tax, the fuel oil tax, and the amusements tax. It submits that the provincial power to levy retail sales taxes by the method of direct or indirect taxation should be clearly established.

The submissions and recommendations contained in this brief have been prepared on the basis of the experience of British Columbia since the end of World War II and of the further growth in governmental services and responsibilities which can now be reasonably anticipated. The province recommends continued Federal-Provincial co-operation in taxation and a re-allocation or sharing of certain responsibilities with a view to effecting a more satisfactory working relationship within the Canadian federal system. Such a relationship is in large part dependent upon the attainment of a balance between the financial capacity and the responsibilities of provincial governments. It is submitted that the recommendations which have been made will, if implemented, contribute to this end.

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<sup>1</sup> Commission Report, Book II, p. 271.

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VICTORIA, B.C.

Printed by DON McDIARMID, Printer to the King's Most Excellent Majesty  
1951



















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British Columbia

Brief presented to Plenary Session of the  
Federal-Provincial Conference, Ottawa, Decem-  
ber 4-7, 1950.

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